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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of

Regulatory Reform for
Local Exchange Carriers
Subject to Rate of Return
Regulation

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CC Docket No. 92-135

REPLY COMMENTS OF THE
PUERTO RICO TELEPHONE COMPANY

The Puerto Rico Telephone Company ("PRTC"), a wholly-owned subsidiary of the Puerto Rico Telephone Authority, hereby submits its replies to the August 28, 1992, comments concerning the Notice of Proposed Rulemaking ("Notice") in the above-captioned proceeding.

I. INTRODUCTION.

In its August 28 comments, PRTC expressed its support of the Commission's efforts to streamline current baseline rate of return regulation and to provide an incentive-based regulatory option suitable for non-price cap local exchange carriers ("LECs"). PRTC also addressed several elements of the Commission's proposals that must be modified in order to 1) make optional incentive regulation (OIR) a viable option for non-price cap carriers, 2) provide meaningful reform of baseline regulation and 3) ensure the continued provision of quality access services by small and midsize LECs. PRTC's comments were widely supported and virtually unopposed in the comments of the twenty-one other parties that filed comments in this proceeding. PRTC also endorses the positions of the United States Telephone Association ("USTA") on the issues not addressed in these Reply Comments.

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II. DISCUSSION.

A. OIR Plan Eligibility for Partially Pooled LECs is Supported by Commenting Parties.

In its comments, PRTC argued that the Commission's OIR Plan must be made available to those carriers that have depooled for the provision of traffic sensitive rates but that remain in the NECA common line pool.¹ Otherwise, the optional incentive regulation is not an option for the vast majority of small and midsize LECs, and the well-documented benefits of incentive regulation will not be extended to the access customers of those companies. This position is strongly supported by the parties commenting on this issue.² In addition, PRTC questioned the Commission's proposed departure from the current regulations that permit reentry to the traffic sensitive pool by any non-price cap LEC.³ None of the commenting parties supported the Commission's proposal to restrict the reentry of former OIR LECs into the traffic sensitive pool.

PRTC urges the Commission to allow OIR plan participation for partially pooled LECs in view of the unanimous support of the parties addressing the issue, and to continue traffic sensitive pool optionality for all non-price cap LECs.

¹ PRTC Comments, pp. 2-4.

² See Comments of USTA, pp. 5-11; ALLTEL Service Corporation (ALLTEL), pp. 7-8; Pacific Telecom (PTI), pp.3-4; John Staurulakis, Inc. (JSI), p. 9; Independent Telephone Access Group (ITAG), p. 7; GVNW, Inc./Management (GVNW), p. 4; Tallon, Cheeseman and Associates, Inc. (Tallon), p. 8; Small Business Administration (SBA), p. 10.

³ PRTC Comments, pp. 4-5.

B. Commenters Support an OIR Plan Earnings Limit of At Least 200 Basis Points Above the Authorized Rate of Return.

PRTC pointed out that the function of the earnings bands of the OIR plan is to provide an upper limit that represents a level of potential earnings sufficient to justify the carrier's bearing the risk of earning at or below the plan's lower band. The symmetrical bands proposed by the Commission fail to serve this function. In order to serve the Commission's purpose the OIR plan's upper earnings limit should be at least 200 basis point above the authorized rate of return.⁴ There is considerable support for this position among the commenting parties,⁵ and only AT&T supported the Commission's proposal.⁶ However, AT&T failed to recognize the considerable risk faced by OIR plan carriers. As PRTC discussed in its comments, the conditions that may lead to underearnings for an OIR carrier will likely prevent such a carrier from earning even at the plan's lower earnings band. In view of this considerable downside risk, it is imperative that the upper earnings limit be at least 200 basis points above the target rate of return.

C. Prospective Ratemaking Must Continue as a Component of Baseline Rate of Return Regulation.

While PRTC supports the Commission's efforts to streamline rate of return regulation, it also agrees with many commenting parties that prospective ratemaking must be preserved for baseline rate of return

⁴ PRTC Comments, p. 7.

⁵ See ITAG Comments, p. 6; Lincoln Telephone Comments, p. 5; Centel Comments, p. 5; Cincinnati Bell Comments, p. 6; JSI Comments, p. 5; ALLTEL Comments, pp. 4-5.

⁶ AT&T Comments, p. 3.

carriers.⁷ This is particularly important for an LEC such as PRTC that continues to expand its network in pursuit of universal service and that continues infrastructure development efforts through the upgrading of its network. Baseline rate of return LECs require prospective ratemaking to account for the significant out-of-trend costs that may be associated with network expansion and upgrades of plant technology.

D. Any Common Line Demand Adjustment Must Share the Benefits of Demand Growth Between LECs and Access Customers.

In the appendix to its August 28 comments, PRTC noted that the common line demand adjustment proposed by the Commission for the OIR plan provides no benefits to LECs for demand growth. Further, the Notice offered no rationale for the proposal's departure from the treatment of common line demand growth under price cap regulation.⁸ Several other parties recognized that the Commission's proposal does not provide an equitable sharing of the benefits, and thus incentives, associated with demand growth.⁹ Although AT&T supported the Commission's proposal,¹⁰ it offered no rationale for the proposal's significant departure from price caps treatment. Again, PRTC urges the Commission to adopt the common line adjustment as proposed by USTA, which provides the necessary incentives and sharing of benefits from growth in demand.

⁷ PRTC Comments, p. 9; See USTA Comments, pp. 30-33; Centel Comments, p. 11; Lincoln Telephone Comments, pp. 8-9; NECA Comments, pp. 5-9; SBA Comments, pp. 21-22.

⁸ PRTC Comments, Appendix, p.1.

⁹ Cincinnati Bell Comments, p. 7, ITAG Comments, p. 8.

¹⁰ AT&T Comments, p. 8.

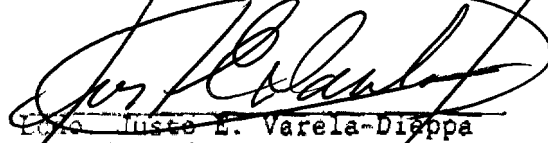
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III. CONCLUSION.

Almost all commenting parties recognized that the Commission must make changes to its proposals for streamlined baseline rate of return and for optional incentive regulation if this effort is to achieve meaningful reform. PRTC urges the Commission to enact the changes addressed in its pleadings and those of USTA to ensure that the benefits of regulatory reform and incentive regulation are realized to the maximum extent possible by LECs and the public.

Respectfully submitted,

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